

**AREA EDUCATION AGENCY 267
CEDAR FALLS, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004**

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Officials

Name	Title	Term Expires
Board of Directors		
Susan Klaessy	President	June 30, 2005
Charles Vaughn	Vice President	June 30, 2006
Charlotte Upah	Member	June 30, 2005
Roberta Kraft Abrahamson	Member	June 30, 2006
Dr. George North	Member	June 30, 2007
Darrel Lind	Member	June 30, 2005
Betty Westmeyer	Member	June 30, 2006
Ella Mae Gogel	Member	June 30, 2007
Ron Crooks	Member	June 30, 2007
Agency		
Dr. Dean Meier	Chief Administrator	
Dennis Scudder	Finance Director and Treasurer	
Diana Bergeson	Board Secretary	

Independent Auditor's Report

Board of Directors
Area Education Agency 267
Cedar Falls, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Area Education Agency 267 at and for the year ended June 30, 2004, which collectively comprise the Area Education Agency's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Area Education Agency 267 at June 30, 2004, and the respective changes in financial position and cash flows, where applicable thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2004 on our consideration of Area Education Agency 267's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on Pages 4 through 10 and Page 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise Area Education Agency 267's basic financial statements. The supplementary information on Pages 32 through 42, including the Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



HOGAN - HANSEN

Mason City, Iowa
October 18, 2004

AREA EDUCATION AGENCY 267 MANAGEMENT'S DISCUSSION AND ANALYSIS

Area Education Agency 267 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

The year ended June 30, 2004 was the initial year of operation for Area Education Agency 267. Financial comparisons with the individual AEAs 2, 6 & 7 from the previous year are not meaningful as each AEA operated differently in 2003 in preparation for the merger and AEA 267 had a unique initial year as a result of the merger. Financial comparisons starting with 2005 and beyond will be more meaningful.

2004 FINANCIAL HIGHLIGHTS

The General Fund revenue was \$39,352,211 and expenditures were \$38,919,872 for fiscal 2004 resulting in a balance of \$5,968,384. Revenue for 2003-04 was impacted by the previous state legislative cuts of approximately \$2,700,000 and by substantial increases in federal dollars. Expenditures were effected by one-time merger costs, administrative cuts and salary schedule adjustments due to the merger. The resulting total balance of \$5,968,384 is substantially reduced from the starting balance of \$7,834,999 in spite of an increase in revenue than the three separate Agencies had in the previous year. The Agency also paid off a lease-purchase in the amount of \$275,000. Finally, the Agency transferred \$1,750,000 from General Fund to Debt Service for a lease-purchase agreement on the Pleasant Hill building project in the Marshalltown region. The final balance of \$5,968,384 includes an unreserved and undesignated fund balance of \$5,077,871. The unreserved, undesignated general fund balance represents 13% of the 2004 fiscal year expenditures in the General Fund.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.
- The Government-wide Financial Statements consists of a statement of net assets and a statement of activities. These provide information about the activities of Area Education Agency 267 as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the Government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year, and Supplementary Information provides detailed information about the non-major funds.

Reporting the Agency as a Whole

The Statements of Net Assets and the Statement of Activities

The Government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Agency's assets and liabilities. All of the current year revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide statements report the Agency's net assets and how they have changed. Net assets – the difference between the Agency's assets and liabilities – are one way to measure the Agency's financial health or position.

- Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the Government-wide financial statements, the Agency's activities are divided into two categories:

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services and administration. Local school districts, federal and state aid finance most of these activities.
- *Business-type activities:* The Agency charges fees to help cover the costs of certain services it provides. The Agency's nutrition, technology and repair services and cooperative purchasing programs are included here.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show that it is properly using certain revenue, such as federal grants.

The Agency has three kinds of funds:

1. Governmental funds account for most of the Agency's basic services. These focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements. The Agency's governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, (c) the Debt Service Fund and (d) Capital Projects Fund.

The governmental funds required financial statements include a balance sheet and a statement of revenue, expenditures and changes in fund balances.

2. Proprietary funds account for services for which the Agency charges a fee. Proprietary funds are reported in the same way as the Government-wide statements. The Agency's enterprise fund, one type of proprietary fund, is the same as its business-type activities, but provides more detail and additional information, such as cash flows. The Agency currently has three Enterprise Funds – the Nutrition Fund, Technology and Repair Services Fund and Cooperative Purchasing Fund.

The proprietary funds required financial statements include a statement of net assets, a statement of revenue, expenses and changes in net assets and a statement of cash flows.

3. Fiduciary funds are used to account for assets held by the Agency as an agent for others. These funds include an Agency Fund.

Agency Funds – These are funds through which the Agency administers and accounts for certain federal and/or state grants on behalf of Cedar Valley Promise and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The Agency excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

A summary reconciliation between the Government-wide financial statements and the fund financial statements follows the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Area Education Agency 267's net assets at the end of fiscal year 2004 totaled approximately \$15 million. This compared to approximately \$15 million at the beginning of the fiscal year. The analysis that follows provides a summary of the Agency's net assets at June 30, 2004 for the governmental and business-type activities:

	Condensed Statement of Net Assets		
	Governmental Activities	Business-Type Activities	Total
Current and other assets.....	\$ 20,134,144	\$ 771,857	\$ 20,906,001
Capital assets.....	<u>8,410,521</u>	<u>—</u>	<u>8,410,521</u>
Total Assets	<u>28,544,665</u>	<u>771,857</u>	<u>29,316,522</u>
Long-term obligations	1,355,000	—	1,355,000
Other liabilities	<u>12,313,402</u>	<u>771,857</u>	<u>13,085,259</u>
Total Liabilities	<u>13,668,402</u>	<u>771,857</u>	<u>14,440,259</u>
Net Assets			
Invested in capital assets, net of related debt.....	7,055,521	—	7,055,521
Restricted	2,097,355	—	2,097,355
Unrestricted	<u>5,723,387</u>	<u>—</u>	<u>5,723,387</u>
Total Net Assets	<u>\$ 14,876,263</u>	<u>\$ —</u>	<u>\$ 14,876,263</u>

The Agency's combined net assets decreased by approximately \$47,000 from the beginning of the year. The decrease occurred in the governmental funds as a result of the transfer of net assets to the Business-Type Activities of approximately \$77,000.

The following analysis shows the changes in net assets for the year ended June 30, 2004.

	Changes in Net Assets		
	Governmental Activities	Business-Type Activities	Total
Revenue			
Program Revenue			
Charges for service	\$ 18,120,628	\$ 1,293,594	\$ 19,414,222
Operating grants and contributions	23,672,595	73,639	23,746,234
General Revenue			
Unrestricted state aid	16,179,373	—	16,179,373
Unrestricted investment earnings	<u>83,674</u>	<u>—</u>	<u>83,674</u>
Total Revenue	<u>58,056,270</u>	<u>1,367,233</u>	<u>59,423,503</u>

	Changes in Net Assets		
	Governmental Activities	Business-Type Activities	Total
Program Expenses			
Instruction	\$ 19,845,418	\$ —	\$ 19,845,418
Student support services	16,812,518	—	16,812,518
Instructional staff support services	9,068,026	—	9,068,026
General administration.....	5,701,384	—	5,701,384
Business administration	1,687,453	—	1,687,453
Plant operations and maintenance	1,360,691	—	1,360,691
Central and other support services	3,463,840	—	3,463,840
Debt service.....	86,519	—	86,519
Noninstructional programs.....	—	1,444,696	1,444,696
Total Expenses	<u>58,025,849</u>	<u>1,444,696</u>	<u>59,470,545</u>
Change in Net Assets Before Other Financing Sources (Uses)	30,421	(77,463)	(47,042)
Other Financing Sources (Uses)	<u>(77,463)</u>	<u>77,463</u>	<u>—</u>
Decrease in Net Assets	(47,042)	—	(47,042)
Net Assets – Beginning of Year	<u>14,923,305</u>	<u>—</u>	<u>14,923,305</u>
Net Assets – End of Year	<u>\$ 14,876,263</u>	<u>\$ —</u>	<u>\$ 14,876,263</u>

Operating grants and contributions from local, state and federal sources, property taxes and unrestricted state aid account for 69% of the total revenue. A substantial percentage of the remaining revenue comes from tuition charges for special education instructional programs. The Agency's expenses primarily relate to instruction, student support services and instructional staff support services which account for 79% of the total expenses.

Governmental Activities

Revenue for governmental activities was \$58,056,270 and expenses were \$58,025,849. The governmental activities also transferred \$77,463 to the Business-Type Activities.

Business-Type Activities

Revenue for the Agency's Business-Type Activities totaled \$1,367,233 and expenses were \$1,444,696 for the fiscal year. A transfer of \$77,463 was made to the Nutrition Fund from the General Fund and Special Education Instructional Fund to defer costs in the Nutrition Fund at Project Child Care and River Hills. Cooperative purchasing expenditures totaled \$789,545, nutrition expenditures \$177,624 and the Agency's management services – boiler repair, copier repair, equipment repair, environmental concerns program and compliance totaled \$477,527. These programs are funded through charges for services.

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

As previously noted, Area Education Agency 267 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances of \$8,065,739, below the beginning of the year fund balances of \$8,968,555. The primary reasons for the decrease in combined fund balances in 2004 was the \$565,000 debt repayment and \$523,519 of facilities acquisition and construction expenditures.

Governmental Fund Highlights

The Debt Service Fund balance increased from \$254,295 to \$1,972,452. This was due primarily to a transfer made from the General Fund of \$1,750,000. This transfer was made to offset the initial payment of the Pleasant Hill project lease-purchase in June of 2005. The Agency's Capital Projects Fund balance decreased from \$648,422 to \$124,903. This was due to the remodeling of the Administrative Services building.

BUDGETARY HIGHLIGHTS

The Agency's Board of Directors annually adopts a budget on a basis consistent with accounting principles generally accepted in the United States of America. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund-type level. After a required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for approval. The budget may be amended during the year utilizing procedures prescribed by the State Board. The amendment process can be done only at budget submission time for the following budget year. That deadline is February 10. AEA 267 budget amendment for 2003-04 is represented by the re-estimated 2003-04 column of the original 2004-05 budget submitted February 3, 2004 totaling \$58,516,479. A schedule showing the budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the Agency had invested \$8,410,521, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers and audio-visual equipment. This is a net increase of approximately \$223,000 from the beginning of the year.

Area Education Agency 267 had depreciation expenses of \$1,025,433 in 2004 and total accumulated depreciation of \$10,788,535 at June 30, 2004. More detailed information about capital assets is available in Note 4 to the financial statements.

Debt

At June 30, 2004, the Agency had \$1,355,000 in long-term debt outstanding compared to \$1,920,000 at July 1, 2003. More detailed information about the Agency's long-term liabilities is available in Note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Revenue increases in the future will be very limited. The allowable growth pattern resulting from the state's economic status coupled with enrollment declines project low controlled funding increases. State legislative cuts to AEAs during the past two years totaled approximately \$2.7 million for AEA 267 which will not be restored. Federal funds have been growing at a substantial pace, but the growth rate appears to be dramatically lower for future budgets; in particular, the Special Education Grants for the Preschool Handicapped Program, which represent approximately one-fourth of the total General Fund budget.

During the 2003-04 year, AEA 267 increased staff in the service areas to utilize unused budget power brought into the merger as well as savings created by the merger. The 2004-05 budget will have to be generated with the concept of a limited revenue increase and substantially no unused 2003-04 budget power to be used. The Agency does have a strong, yet unrenewable, fund balance to assist in budget management.

The Agency's debt payments for 2004-05 will be a continuation of the Certificates of Participation for the Cedar Falls building and the Pleasant Hill building project. The transfer from General Fund to make a large initial payment on the Pleasant Hill lease-purchase will allow for much lower payments in future years.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director of Finance's office of Area Education Agency 267, 3712 Cedar Heights Drive, Cedar Falls, Iowa 50613-6290.

Basic Financial Statements

Statement of Net Assets

At June 30, 2004

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash and cash equivalents.....	\$ 4,577,501	\$ 10,461	\$ 4,587,962
Receivables			
Accounts.....	841,373	360,090	1,201,463
Due from other governmental units.....	8,544,709	—	8,544,709
Due from other funds.....	727,581	—	727,581
Inventories.....	101,416	401,306	502,722
Prepaid expenses.....	49,762	—	49,762
Restricted cash and pooled investments.....	196,692	—	196,692
Restricted ISCAP Assets			
Investments.....	5,027,100	—	5,027,100
Accrued interest receivable.....	42,250	—	42,250
Capital assets, net of accumulated depreciation	8,410,521	—	8,410,521
Discount on certificates of participation.....	25,760	—	25,760
Total Assets	<u>\$28,544,665</u>	<u>\$ 771,857</u>	<u>\$29,316,522</u>
Liabilities			
Accounts payable.....	\$ 1,505,125	\$ 33,400	\$ 1,538,525
Salaries and benefits payable.....	5,289,711	10,876	5,300,587
Accrued interest.....	4,731	—	4,731
ISCAP warrants payable.....	5,000,000	—	5,000,000
ISCAP accrued interest payable.....	69,350	—	69,350
Due to other funds.....	—	727,581	727,581
Deferred revenue.....	44,454	—	44,454
Long-Term Liabilities			
Portion Due or Payable Within One Year			
Certificates of participation.....	175,000	—	175,000
Compensated absences.....	240,266	—	240,266
Early retirement benefits.....	41,024	—	41,024
Portion Due or Payable After One Year			
Certificates of participation.....	1,180,000	—	1,180,000
Early retirement benefits.....	118,741	—	118,741
Total Liabilities	<u>13,668,402</u>	<u>771,857</u>	<u>14,440,259</u>
Net Assets			
Invested in capital assets, net of related debt....	7,055,521	—	7,055,521
Restricted For			
Debt Service.....	1,972,452	—	1,972,452
Capital Projects.....	124,903	—	124,903
Unrestricted.....	5,723,387	—	5,723,387
Total Net Assets	<u>14,876,263</u>	<u>—</u>	<u>14,876,263</u>
Total Liabilities and Net Assets	<u>\$28,544,665</u>	<u>\$ 771,857</u>	<u>\$29,316,522</u>

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2003

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expenses), Revenue and Changes in Net Assets		
				Governmental Activities	Business- Type Activities	Total
Governmental Activities						
Instruction.....	\$ 19,845,418	\$ 17,166,394	\$ 2,407,149	\$ (271,875)	\$ —	\$ (271,875)
Student support services	16,812,518	36,982	15,230,674	(1,544,862)	—	(1,544,862)
Instructional staff support services.....	9,068,026	813,495	6,034,772	(2,219,759)	—	(2,219,759)
General administration	5,701,384	13,319	—	(5,688,065)	—	(5,688,065)
Business administration.....	1,687,453	—	—	(1,687,453)	—	(1,687,453)
Plant operations and maintenance	1,360,691	—	—	(1,360,691)	—	(1,360,691)
Central and other support services	3,463,840	90,438	—	(3,373,402)	—	(3,373,402)
Debt service	86,519	—	—	(86,519)	—	(86,519)
Total Governmental Activities	<u>58,025,849</u>	<u>18,120,628</u>	<u>23,672,595</u>	<u>(16,232,626)</u>	<u>—</u>	<u>(16,232,626)</u>
Business-Type Activities						
Noninstructional Programs						
Nutrition services.....	177,624	26,522	73,639	—	(77,463)	(77,463)
Technology and repair services.....	477,527	477,527	—	—	—	—
Co-op purchasing.....	789,545	789,545	—	—	—	—
Total Business-Type Activities.....	<u>1,444,696</u>	<u>1,293,594</u>	<u>73,639</u>	<u>—</u>	<u>(77,463)</u>	<u>(77,463)</u>
Total.....	<u>\$ 59,470,545</u>	<u>\$ 19,414,222</u>	<u>\$ 23,746,234</u>	<u>(16,232,626)</u>	<u>(77,463)</u>	<u>(16,310,089)</u>
General Revenue						
Unrestricted foundation aid.....				16,179,373	—	16,179,373
Unrestricted investment earnings				83,674	—	83,674
Total General Revenue				<u>16,263,047</u>	<u>—</u>	<u>16,263,047</u>
Change in Net Assets Before Other Financing Sources (Uses)				30,421	(77,463)	(47,042)
Other Financing Sources (Uses)						
Transfers				(77,463)	77,463	—
Change in Net Assets.....				(47,042)	—	(47,042)
Net Assets - Beginning of Year.....				14,923,305	—	14,923,305
Net Assets - End of Year				<u>\$ 14,876,263</u>	<u>\$ —</u>	<u>\$ 14,876,263</u>

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

At June 30, 2004

	General	Special Revenue Special Education Instruction	Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments	\$ 2,631,473	\$ —	\$ 1,946,028	\$ 4,577,501
Receivables				
Accounts	779,317	—	62,056	841,373
Due from other governmental units	6,064,527	2,480,182	—	8,544,709
Due from other funds	1,116,296	—	—	1,116,296
Inventories	101,416	—	—	101,416
Prepaid expenditures	49,762	—	—	49,762
Restricted cash and pooled investments	—	—	196,692	196,692
Restricted ISCAP Assets				
Investments	5,027,100	—	—	5,027,100
Accrued interest receivable	42,250	—	—	42,250
Discount on certificates of participation	—	—	25,760	25,760
Total Assets	\$ 15,812,141	\$ 2,480,182	\$ 2,230,536	\$ 20,522,859
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 1,309,633	\$ 162,546	\$ 32,946	\$ 1,505,125
Salaries and benefits payable	3,420,320	1,928,921	100,235	5,449,476
ISCAP warrants payable	5,000,000	—	—	5,000,000
ISCAP accrued interest payable	69,350	—	—	69,350
Due to other funds	—	388,715	—	388,715
Deferred revenue	44,454	—	—	44,454
Total Liabilities	9,843,757	2,480,182	133,181	12,457,120
Fund Balances				
Reserved For				
Inventories	101,416	—	—	101,416
Prepaid expenditures	49,762	—	—	49,762
Unreserved				
Designated for				
Media resources	701,496	—	—	701,496
Special purposes	7,839	—	—	7,839
Undesignated Reported in				
General Fund	5,107,871	—	—	5,107,871
Capital Projects Fund	—	—	124,903	124,903
Debt Service Fund	—	—	1,972,452	1,972,452
Total Fund Balances	5,968,384	—	2,097,355	8,065,739
Total Liabilities and Fund Balances	\$ 15,812,141	\$ 2,480,182	\$ 2,230,536	\$ 20,522,859

See accompanying notes to the financial statements.

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets

At June 30, 2004

Total Fund Balances for Governmental Funds (Page 13).... **\$ 8,065,739**

***Amounts reported for governmental activities in the
statement of net assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds..... 8,410,521

Long-term liabilities, including certificates of participation payable, accrued interest and compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

Accrued interest payable	\$ (4,731)	
Certificates of participation	(1,355,000)	
Compensated absences.....	<u>(240,266)</u>	<u>(1,599,997)</u>

Net Assets of Governmental Activities (Page 11) **\$ 14,876,263**

Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2004

	General	Special Revenue Special Education Instruction	Nonmajor Governmental Funds	Total
Revenue				
Local sources	\$ 11,861,346	\$ 17,033,344	\$ 1,348	\$ 28,896,038
State sources	10,927,167	663,608	972,346	12,563,121
Federal sources.....	16,563,698	33,413	—	16,597,111
Total Revenue.....	<u>39,352,211</u>	<u>17,730,365</u>	<u>973,694</u>	<u>58,056,270</u>
Expenditures				
Current				
Instruction	3,772,681	15,127,510	855,508	19,755,699
Student support services.....	16,689,699	92,932	—	16,782,631
Instructional staff support services.....	8,906,161	5,676	956	8,912,793
General administration.....	4,665,995	1,068,018	87,837	5,821,850
Business administration	1,515,555	169,110	—	1,684,665
Plant operations and maintenance.....	791,194	520,589	28,045	1,339,828
Central and other support services.....	2,578,587	828,280	—	3,406,867
Facilities acquisition and construction	—	—	523,519	523,519
Debt service	—	—	653,771	653,771
Total Expenditures	<u>38,919,872</u>	<u>17,812,115</u>	<u>2,149,636</u>	<u>58,881,623</u>
Revenue Over (Under) Expenditures	432,339	(81,750)	(1,175,942)	(825,353)
Other Financing Sources (Uses)				
Transfers, net	<u>(2,298,954)</u>	<u>(149,089)</u>	<u>2,370,580</u>	<u>(77,463)</u>
Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,866,615)	(230,839)	1,194,638	(902,816)
Fund Balances - Beginning of Year	<u>7,834,999</u>	<u>230,839</u>	<u>902,717</u>	<u>8,968,555</u>
Fund Balances - End of Year	<u>\$ 5,968,384</u>	<u>\$ —</u>	<u>\$ 2,097,355</u>	<u>\$ 8,065,739</u>

See accompanying notes to the financial statements.

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities —————

Year Ended June 30, 2004

Change in Fund Balances - Total Governmental Funds (Page 15) \$ (902,816)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense for the year are as follows:

Capital outlays.....	\$ 1,248,536	
Depreciation expense.....	<u>(1,025,433)</u>	223,103

Repayment of long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.....		565,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		2,252
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Salaries and benefits in the Statement of Activities differ from the amount reported in the governmental funds because vacation pay is recorded as an expenditure in the funds when paid. In the Statement of Activities, the expense is recognized as the vacation pay accrues, regardless of when it is paid.		<u>65,419</u>
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Change in Net Assets of Governmental Activities (Page 12) \$ (47,042)

Statement of Net Assets - Nonmajor Proprietary Funds

At June 30, 2004

	Nonmajor Proprietary Funds
Assets	
Cash and pooled investments	\$ 10,461
Accounts receivable	360,090
Inventory	<u>401,306</u>
Total Assets	<u>\$ 771,857</u>
Liabilities	
Accounts payable	\$ 33,400
Salaries and benefits payable.....	10,876
Due to other funds	<u>727,581</u>
Total Liabilities	<u>771,857</u>
Net Assets	<u>—</u>
Total Liabilities and Net Assets	<u>\$ 771,857</u>

See accompanying notes to the financial statements.

Statement of Revenue, Expenses and Changes in Net Assets - Nonmajor Proprietary Funds

Year Ended June 30, 2004

	Nonmajor Proprietary Funds
Operating Revenue	
Charges for services.....	\$ 1,292,569
Miscellaneous.....	1,025
Total Operating Revenue	<u>1,293,594</u>
Operating Expenses	
Noninstructional Programs	
Business Administration	
Salaries	46,830
Benefits	12,218
Purchased services	26,760
Materials and supplies.....	703,737
Total Business Administration	<u>789,545</u>
Central and Other Support Services	
Salaries	269,655
Benefits	102,644
Purchased services	22,955
Materials and supplies.....	246,994
Capital outlay	8,461
Other	4,442
Total Central and Other Support Services	<u>655,151</u>
Total Operating Expenses	<u>1,444,696</u>
Loss From Operations	<u>(151,102)</u>
Nonoperating Revenue	
State sources	2,686
Federal sources.....	70,953
Total Nonoperating Revenue.....	<u>73,639</u>
Change in Net Assets Before Transfers	(77,463)
Transfers in	<u>77,463</u>
Change in Net Assets.....	—
Net Assets - Beginning of Year.....	<u>—</u>
Net Assets - End of Year	<u>\$ —</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Nonmajor Proprietary Funds

At June 30, 2004

	Nonmajor Proprietary Funds
Cash Flows From Operating Activities	
Cash received from customers	\$ 1,246,933
Cash paid to employees for services	(420,471)
Cash paid to suppliers for goods and services	(1,032,016)
Net Cash Used in Operating Activities	<u>(205,554)</u>
Cash Flows From Noncapital Financing Activities	
State grants received	2,686
Federal grants received	70,953
Advances from other funds	727,581
Repayment of advances from other funds	(674,163)
Transfers in	77,463
Net Cash Provided by Noncapital Financing Activities	<u>204,520</u>
Net Decrease in Cash and Cash Equivalents	(1,034)
Cash and Cash Equivalents at Beginning of Year	11,495
Cash and Cash Equivalents at End of Year	<u>\$ 10,461</u>
Reconciliation of Loss From Operations to Net Cash Used in Operating Activities	
Loss from operations	\$ (151,102)
Adjustments to Reconcile Loss From Operations to Net Cash Used in Operating Activities	
Changes in Assets and Liabilities	
Increase in accounts receivable	(46,661)
Increase in inventory	(52,060)
Increase in accounts payable	33,393
Increase in accrued salaries and benefits	10,876
Net Cash Used in Operating Activities	<u>\$ (205,554)</u>

Statement of Fiduciary Net Assets - Fiduciary Funds - Agency ---

At June 30, 2004

Assets

Cash and pooled investments	<u>\$ 1,085,735</u>
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Liabilities

Accounts payable	\$ 303,399
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Deposits held in custody for others.....	<u>782,336</u>
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Total Liabilities	<u>\$ 1,085,735</u>
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Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Organization and Function

Area Education Agency 267 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 61 school districts and 24 private schools in an 18-county area. The Agency is governed by a Board of Directors whose members are elected on a nonpartisan basis. The Agency was formed on July 1, 2003 following the merger of Area Education Agencies 2, 6 and 7. Any references to the "Agency" prior to July 1, 2003 refers to one or more of the predecessor agencies.

Reporting Entity

For financial reporting purposes, the Agency has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. Area Education Agency 267 has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and the statement of activities report information on all activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of net assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenue are reported instead as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency had the following major governmental funds:

The General Fund is the general operating fund of the Agency. All general tax revenue and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Special Revenue, Special Education Instruction Fund is used to account for programs where the Area Education Agency employs teachers to provide instruction to special education pupils. The actual costs of providing instructional services to the pupils are billed to the individual school districts.

The Agency had no major proprietary funds.

The Agency also reports fiduciary funds which focus on net assets. The Agency's fiduciary fund was as follows:

The Agency funds are used to account for assets held by the Agency as an agent for individuals, private organizations and other governments. The Agency funds are custodial in nature, assets equal liabilities and do not involve measurement of results of operations.

Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus. The Government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenue to be available if it is collected within 60 days after year end.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Intergovernmental revenue (shared revenue, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The proprietary funds of the Agency apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Agency's enterprise fund is charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents

Cash includes amounts in demand deposits and money market funds. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost.

Inventories

Inventories are stated at cost using the first-in, first-out method and consists of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

Capital Assets

Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities column in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Land.....	\$ 2,000
Buildings	10,000
Improvements other than buildings.....	2,000
Furniture and equipment	2,000
Library books and films	No threshold

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Property, furniture and equipment are depreciated using the straight-line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	50 Years
Improvements other than buildings.....	20 - 50 Years
Technological equipment	5 Years
Furnishings	7 - 20 Years
Other equipment	10 - 15 Years
Vehicles	8 Years
Library books and films	5 Years

Salaries and Benefits Payable

Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue

Deferred revenue represents an excess of cash advances by the funding source over accrued expenditures at year end.

Compensated Absences

Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the statement of net assets representing the Agency's commitment to fund noncurrent compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-Term Liabilities

In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances

In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets

In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Notes to the Financial Statements

(2) Cash and Pooled Investments

The Agency's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure that there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and, certain joint investment trusts and warrants or improvement certificates of a drainage district.

The Agency's investments are categorized to give an indication of level of risk assumed by the Agency at year end. The Agency's investments are all Category 1, which means that the investments are insured or registered or the securities are held by the Agency or its agent in the Agency's name.

The Agency's investments at June 30, 2004 consist of the following:

Type	Fair Value
Governmental Securities Material Fund	<u>\$ 196,692</u>

In addition, the Agency had investments in the Iowa Schools Joint Investment Trust which are valued at amortized cost of \$507,475 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Iowa School Cash Anticipation Program (ISCAP)

The Agency participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards, administered by Wells Fargo Bank Iowa, N.A., and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each participating entity is based on a projection of cash flow needs during the semiannual period. Wells Fargo Bank Iowa, N.A. maintains ISCAP accounts for each participating entity and provides monthly statements regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the statement of net assets and balance sheet. A summary of the Agency's participation in ISCAP as of June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A.....	6-30-04	6-30-05	<u>\$ 5,027,100</u>	<u>\$ 42,250</u>	<u>\$ 5,000,000</u>	<u>\$ 69,350</u>

Notes to the Financial Statements

(3) Iowa School Cash Anticipation Program (ISCAP)

The Agency pledges its state foundation aid payments and general fund receipts as security for warrants issued. Repayments must be made when general fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, the Agency must repay the outstanding withdrawal from its general fund receipts. In addition, the Agency must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05A.....	3%	2.463%

(4) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 809,308	\$ —	\$ —	\$ 809,308
Construction in progress	259,117	—	259,117	—
Total Capital Assets Not Being Depreciated.....	<u>1,068,425</u>	<u>—</u>	<u>259,117</u>	<u>809,308</u>
Capital Assets Being Depreciated				
Buildings and improvements	7,459,406	775,149	—	8,234,555
Furniture and equipment	4,386,087	240,346	96,481	4,529,952
Library books and films	<u>6,239,862</u>	<u>492,158</u>	<u>1,106,779</u>	<u>5,625,241</u>
Total Capital Assets Being Depreciated.....	<u>18,085,355</u>	<u>1,507,653</u>	<u>1,203,260</u>	<u>18,389,748</u>
Less Accumulated Depreciation For				
Buildings and improvements	2,614,190	157,792	—	2,771,982
Furniture and equipment	3,452,723	264,205	96,481	3,620,447
Library books and films	<u>4,899,449</u>	<u>603,436</u>	<u>1,106,779</u>	<u>4,396,106</u>
Total Accumulated Depreciation	<u>10,966,362</u>	<u>1,025,433</u>	<u>1,203,260</u>	<u>10,788,535</u>
Net Total Capital Assets Being Depreciated.....	<u>7,118,993</u>	<u>482,220</u>	<u>—</u>	<u>7,601,213</u>
Net Governmental Activities				
Capital Assets.....	<u>\$ 8,187,418</u>	<u>\$ 482,220</u>	<u>\$ 259,117</u>	<u>\$ 8,410,521</u>

Notes to the Financial Statements

(4) Capital Assets

Depreciation expense was charged as follows:

Governmental Activities	
Instruction	\$ 131,249
Student support services	47,411
Instructional staff support services	647,391
General administration	84,421
Business administration	11,782
Plant operations and maintenance	28,016
Central support	75,163
Total Governmental Activities Depreciation Expense	<u>\$ 1,025,433</u>

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year
Certificates of participation	\$ 1,645,000	\$ —	\$ 290,000	\$ 1,355,000
Capital lease	275,000	—	275,000	—
Compensated absences	305,685	240,266	305,685	240,266
Early retirement benefits	122,609	61,481	24,325	159,765
	<u>\$ 2,348,294</u>	<u>\$ 301,747</u>	<u>\$ 895,010</u>	<u>\$ 1,755,031</u>

Certificates of Participation

On August 1, 2001, the Agency sold certificates of participation for land and facilities for a total of \$400,000. The certificates of participation represent an ownership interest of the certificate holder in a lease-purchase agreement. The certificates matured over a period of years with interest rates ranging from 3.375%-4%. The certificates were completely paid off during the year.

On May 1, 2001, the Agency sold certificates of participation for two buildings for a total of \$1,840,000. The certificates of participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of ten years with interest rates ranging from 3.5% to 4.55%. The following is a schedule by year of the future minimum payments required:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 175,000	\$ 57,548	\$ 232,548
2006	180,000	50,636	230,636
2007	190,000	43,436	233,436
2008	195,000	35,646	230,646
2009	205,000	27,357	232,357
2010-2011	410,000	27,312	437,312
Total	<u>\$ 1,355,000</u>	<u>\$ 241,935</u>	<u>\$ 1,596,935</u>

Notes to the Financial Statements

(5) Long-Term Liabilities

Capital Lease

On August 16, 2000, the Agency entered into a capital lease agreement with a bank. The agreement was for a period of 12 years ending in June, 2013 at an interest rate of 5.89%. This lease was secured by land and a building. The lease was paid in full during the year ended June 30, 2004.

Total interest expenditures were \$85,090 for the certificates of participation and capital lease for the year ended June 30, 2004.

Early Retirement Benefits Payable

In 2002, Area Education Agencies 6 and 7 offered post-retirement health care to all employees who retired from the Agencies on or before September 30, 2002. The Agency will pay the cost of single health insurance premiums until age 65. The Agency also has entered into an agreement to pay the health insurance premiums for the former chief administrator of Area Education Agency 7 through March, 2006.

The expenditures are recognized on a pay-as-you-go basis, with net assets reserved for future benefit payments. Future maturities of these benefits are as follows:

2005	\$ 41,024
2006	36,944
2007	30,307
2008	20,364
2009	15,945
Future years	15,181
	<u>\$ 159,765</u>

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer From	Amount
Debt Service	General	\$ 2,221,491
	Special Revenue - Special Education Instruction	149,089
		<u>2,370,580</u>
Proprietary - Nutrition	General	77,463
Total		<u>\$ 2,448,043</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Notes to the Financial Statements

(7) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue - Special Education Instruction	\$ 388,715
	Proprietary	
	Technology and Repair Services	83,043
	Cooperative Purchasing	644,538
Total General Fund		<u>\$ 1,116,296</u>

These balances result from interfund loans to finance individual funds' accounts receivable and inventory. Repayments will be made from future revenue.

(8) Operating Leases

The Agency leases several copiers, with terms ranging from three to five years, under operating leases. In addition, the Agency leases land on which its Clear Lake building is located under an operating lease which expires in 2033. The Agency has also leased various facilities within the area to house its different divisions under annual leases. These leases have been classified as operating leases and, accordingly, all rents are recorded as expenditures when incurred. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following is a schedule by years of future minimum rental payments required under operating leases which have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2004.

Year Ending June 30,	
2005	\$ 115,116
2006	115,116
2007	47,522
2008	23,748
2009	23,748
Later years	31,644
Total.....	<u>\$ 356,894</u>

Total rental expenditures for the year ended June 30, 2004 for all operating leases, except those with terms of a month or less that were not renewed, was \$454,700.

(9) Pension and Retirement Benefits

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Agency is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the year ended June 30, 2004 was \$3,221,772, equal to the required contribution for the year.

(10) Risk Management

The Agency is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance coverage during the year ended June 30, 2004.

(11) Subsequent Event

In September, 2004, the Agency entered into a \$2,700,000 lease purchase agreement for the acquisition of a building in Marshalltown.

Required Supplementary Information

Schedule of Budgetary Comparison of Revenue, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund

Year Ended June 30, 2004

	<u>Actual</u>			<u>Budget Amount</u>		<u>Final</u>
	<u>Governmental</u>	<u>Proprietary</u>	<u>Total</u>	<u>Original</u>	<u>Final</u>	<u>to Actual</u>
	<u>Fund Types</u>	<u>Fund Type</u>				<u>Variance</u>
Revenue						
Local sources.....	\$ 28,896,038	\$ 1,293,594	\$ 30,189,632	\$ 29,547,974	\$ 28,822,862	\$ 1,366,770
State sources.....	12,563,121	2,686	12,565,807	14,049,269	12,224,686	341,121
Federal sources.....	16,597,111	70,953	16,668,064	14,251,400	16,278,112	389,952
Total Revenue.....	<u>58,056,270</u>	<u>1,367,233</u>	<u>59,423,503</u>	<u>57,848,643</u>	<u>57,325,660</u>	<u>2,097,843</u>
Expenditures						
Instruction.....	19,755,699	—	19,755,699	21,373,700	19,268,499	(487,200)
Student support services.....	16,782,631	—	16,782,631	14,820,000	15,810,524	(972,107)
Instructional staff support services.....	8,912,793	—	8,912,793	11,997,000	9,249,312	336,519
General administration.....	5,821,850	—	5,821,850	4,708,000	5,596,217	(225,633)
Business administration.....	1,684,665	—	1,684,665	750,000	1,616,190	(68,475)
Plant operations and maintenance.....	1,339,828	—	1,339,828	831,900	1,347,725	7,897
Central and other support services.....	3,406,867	—	3,406,867	1,349,500	3,533,155	126,288
Facilities acquisition and construction.....	523,519	—	523,519	80,000	515,000	(8,519)
Noninstructional programs.....	—	1,444,696	1,444,696	1,608,300	1,218,857	(225,839)
Debt service.....	653,771	—	653,771	337,800	361,000	(292,771)
Total Expenditures.....	<u>58,881,623</u>	<u>1,444,696</u>	<u>60,326,319</u>	<u>57,856,200</u>	<u>58,516,479</u>	<u>(1,809,840)</u>
Revenue Under Expenditures	(825,353)	(77,463)	(902,816)	(7,557)	(1,190,819)	288,003
Other Financing Sources						
(Uses).....	<u>(77,463)</u>	<u>77,463</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Revenue and Other Financing Sources Under Expenditures and Other Financing Uses	(902,816)	—	(902,816)	(7,557)	(1,190,819)	288,003
Balance - Beginning of Year...	8,968,555	—	8,968,555	7,154,258	9,751,968	(783,413)
Balance - End of Year.....	<u>\$ 8,065,739</u>	<u>\$ —</u>	<u>\$ 8,065,739</u>	<u>\$ 7,146,701</u>	<u>\$ 8,561,149</u>	<u>\$ (495,410)</u>

The Agency's Board of Directors annually prepares a budget on a basis consistent with accounting principles generally accepted in the United States of America. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund type level. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

Other Supplementary Information



Combining Balance Sheet - Nonmajor Governmental Funds

At June 30, 2004

	Special Revenue Juvenile Home	Capital Projects	Debt Service	Total
Assets				
Cash and pooled investments	\$ 42,678	\$ 153,350	\$ 1,750,000	\$ 1,946,028
Receivables				
Accounts	62,056	—	—	62,056
Restricted cash and pooled investments	—	—	196,692	196,692
Discount on certificates of participation	—	—	25,760	25,760
Total Assets	<u>\$ 104,734</u>	<u>\$ 153,350</u>	<u>\$ 1,972,452</u>	<u>\$ 2,230,536</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 4,499	\$ 28,447	\$ —	\$ 32,946
Salaries and benefits payable	100,235	—	—	100,235
Total Liabilities	<u>104,734</u>	<u>28,447</u>	<u>—</u>	<u>133,181</u>
Fund Balances				
Unreserved, undesignated	—	124,903	1,972,452	2,097,355
Total Liabilities and Fund Balance	<u>\$ 104,734</u>	<u>\$ 153,350</u>	<u>\$ 1,972,452</u>	<u>\$ 2,230,536</u>

Combining Statement of Revenue, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds

Year Ended June 30, 2004

	Special Revenue Juvenile Home	Capital Projects	Debt Service	Total
Revenue				
Local sources	\$ —	\$ —	\$ 1,348	\$ 1,348
State sources	972,346	—	—	972,346
Total Revenue	972,346	—	1,348	973,694
Expenditures				
Instruction.....	855,508	—	—	855,508
Instructional staff support services.....	956	—	—	956
General administration	87,837	—	—	87,837
Plant operations and maintenance	28,045	—	—	28,045
Facilities acquisition and construction.....	—	523,519	—	523,519
Debt service	—	—	653,771	653,771
Total Expenditures.....	972,346	523,519	653,771	2,149,636
Revenue Under Expenditures.....	—	(523,519)	(652,423)	(1,175,942)
Other Financing Sources				
Transfers in	—	—	2,370,580	2,370,580
Revenue and Other Financing Sources Over (Under) Expenditures.....	—	(523,519)	1,718,157	1,194,638
Fund Balances - Beginning of year.....	—	648,422	254,295	902,717
Fund Balances - End of Year	\$ —	\$ 124,903	\$ 1,972,452	\$ 2,097,355

Combining Statement of Net Assets - Nonmajor Proprietary Funds

At June 30, 2004

	Nutrition	Technology and Repair Services	Cooperative Purchasing	Total
Assets				
Cash and pooled investments	\$ 10,461	\$ —	\$ —	\$ 10,461
Accounts receivable	—	74,351	285,739	360,090
Inventory	—	18,352	382,954	401,306
Total Assets	<u>\$ 10,461</u>	<u>\$ 92,703</u>	<u>\$ 668,693</u>	<u>\$ 771,857</u>
Liabilities				
Accounts payable	\$ 2,506	\$ 9,660	\$ 21,234	\$ 33,400
Salaries and benefits payable.....	7,955	—	2,921	10,876
Due to other funds	—	83,043	644,538	727,581
Total Liabilities	<u>10,461</u>	<u>92,703</u>	<u>668,693</u>	<u>771,857</u>
Net Assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Liabilities and Net Assets	<u>\$ 10,461</u>	<u>\$ 92,703</u>	<u>\$ 668,693</u>	<u>\$ 771,857</u>

Combining Statement of Revenue, Expenses and Changes in Net Assets - Nonmajor Proprietary Funds

Year Ended June 30, 2004

	Nutrition	Technology and Repair Services	Cooperative Purchasing	Total
Operating Revenue				
Charges for services.....	\$ 25,497	\$ 477,527	\$ 789,545	\$ 1,292,569
Miscellaneous.....	1,025	—	—	1,025
Total Operating Revenue	<u>26,522</u>	<u>477,527</u>	<u>789,545</u>	<u>1,293,594</u>
Noninstructional Programs				
Business Administration				
Salaries.....	—	—	46,830	46,830
Benefits.....	—	—	12,218	12,218
Purchased services.....	—	—	26,760	26,760
Materials and supplies	—	—	703,737	703,737
Total Business Administration.....	—	—	789,545	789,545
Central and Other Support Services				
Salaries.....	68,413	201,242	—	269,655
Benefits.....	27,784	74,860	—	102,644
Purchased services.....	9,831	13,124	—	22,955
Materials and supplies	71,596	175,398	—	246,994
Capital outlay	—	8,461	—	8,461
Other.....	—	4,442	—	4,442
Total Central and Other Support Services	<u>177,624</u>	<u>477,527</u>	<u>—</u>	<u>655,151</u>
Total Operating Expenses	<u>177,624</u>	<u>477,527</u>	<u>789,545</u>	<u>1,444,696</u>
Loss From Operations	<u>(151,102)</u>	<u>—</u>	<u>—</u>	<u>(151,102)</u>
Nonoperating Revenue				
State sources	2,686	—	—	2,686
Federal sources.....	70,953	—	—	70,953
Total Nonoperating Revenue ...	<u>73,639</u>	<u>—</u>	<u>—</u>	<u>73,639</u>
Change in Net Assets Before Transfers	<u>(77,463)</u>	<u>—</u>	<u>—</u>	<u>(77,463)</u>
Transfers in	<u>77,463</u>	<u>—</u>	<u>—</u>	<u>77,463</u>
Change in Net Assets.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net Assets - Beginning of Year.....	—	—	—	—
Net Assets - End of Year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Combining Statement of Cash Flows - Nonmajor Proprietary Funds

At June 30, 2004

	Nutrition	Technology and Repair Services	Cooperative Purchasing	Total
Cash Flows From Operating Activities				
Cash received from customers	\$ 26,522	\$ 403,176	\$ 817,235	\$ 1,246,933
Cash paid to employees for services .	(88,242)	(276,102)	(56,127)	(420,471)
Cash paid to suppliers for goods and services.....	(76,587)	(210,117)	(745,312)	(1,032,016)
Net Cash Provided by (Used in) Operating Activities	<u>(138,307)</u>	<u>(83,043)</u>	<u>15,796</u>	<u>(205,554)</u>
Cash Flows From Noncapital Financing Activities				
State grants received.....	2,686	—	—	2,686
Federal grants received.....	70,953	—	—	70,953
Advances from other funds.....	—	83,043	644,538	727,581
Repayment of advances from other funds.....	(13,829)	—	(660,334)	(674,163)
Transfers in	77,463	—	—	77,463
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>137,273</u>	<u>83,043</u>	<u>(15,796)</u>	<u>204,520</u>
Net Decrease in Cash and Cash Equivalents.....	(1,034)	—	—	(1,034)
Cash and cash equivalents at beginning of year	11,495	—	—	11,495
Cash and Cash Equivalents at End of Year	<u>\$ 10,461</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 10,461</u>
Reconciliation of Loss From Operations to Net Cash Provided by (Used in) Operating Activities				
Loss from operations.....	\$ (151,102)	\$ —	\$ —	\$ (151,102)
Adjustments to Reconcile Loss From Operations to Net Cash Provided by (Used in) Operating Activities				
Changes in Assets and Liabilities				
(Increase) decrease in accounts receivable.....	—	(74,351)	27,690	(46,661)
(Increase) decrease in inventory	2,341	(18,352)	(36,049)	(52,060)
Increase in accounts payable	2,499	9,660	21,234	33,393
Increase in accrued salaries and benefits.....	7,955	—	2,921	10,876
Net Cash Provided by (Used in) Operating Activities	<u>\$ (138,307)</u>	<u>\$ (83,043)</u>	<u>\$ 15,796</u>	<u>\$ (205,554)</u>

Statement of Changes in Fiduciary Assets and Liabilities - Agency Funds —

Year Ended June 30, 2004

	Balance 7-1-03	Additions	Deductions	Balance 6-30-04
Assets				
Cash.....	\$ 1,089,351	\$ 1,154,522	\$ 1,158,138	\$ 1,085,735
Accounts receivable	12,483	—	12,483	—
Due from other governments	<u>37</u>	<u>—</u>	<u>37</u>	<u>—</u>
Total Assets	<u>\$ 1,101,871</u>	<u>\$ 1,154,522</u>	<u>\$ 1,170,658</u>	<u>\$ 1,085,735</u>
Liabilities				
Accounts payable	\$ 11,396	\$ 303,399	\$ 11,396	\$ 303,399
Deposits held in custody of others	<u>1,090,475</u>	<u>1,142,933</u>	<u>1,451,072</u>	<u>782,336</u>
Total Liabilities	<u>\$ 1,101,871</u>	<u>\$ 1,446,332</u>	<u>\$ 1,462,468</u>	<u>\$ 1,085,735</u>

Schedule of Revenue By Source and Expenditures By Function - All Governmental Fund Types (Modified Accrual Basis)

Year Ended June 30, 2004

Revenue

Local sources	\$ 28,896,038
State sources	12,563,121
Federal sources.....	<u>16,597,111</u>

Total Revenue **\$ 58,056,270**

Expenditures

Current

Instruction	\$ 19,755,699
Student support services.....	14,082,741
Instructional staff support services	8,912,793
General administration.....	5,821,850
Business administration	1,684,665
Plant operations and maintenance	1,339,828
Central and other support services.....	3,406,867
Local education agency flow through	2,699,890
Facilities acquisition and construction.....	653,771
Debt service	<u>523,519</u>

Total Expenditures **\$ 58,881,623**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass- Through Grantor's Number	Federal Expenditures
U.S. Department of Agriculture - Indirect			
Pass-Through Iowa Department of Education			
National School Lunch Program.....	10.555	N/A	<u>\$ 70,953</u>
U.S. Department of Education - Direct			
Fund for the Improvement of Education			
Our Kids Program	84.215	N/A	32,542
History Program	84.215	N/A	<u>104,666</u>
Total U.S. Department of Education - Direct.....			<u>137,208</u>
U.S. Department of Education - Indirect			
Pass-Through Center of Civic Education			
Civic Education Cooperative Education Exchange Program			
Miscellaneous programs.....	84.304	N/A	13,561
Citizen and Constitution.....	84.304	58011A	26,137
Project Citizen	84.304	R929A03000	<u>7,381</u>
Total Pass-Through Center of Civic Education.....			<u>47,079</u>
Pass-Through School Administration of Iowa			
Parental Assistance Centers	84.310	N/A	<u>107,481</u>
Pass-Through Iowa Department of Education			
Title 1 - Program for Neglected and Delinquent			
Children	84.013	*	<u>220,233</u>
Special Education - Grants to States			
Overtime Contract	84.027	**	17,082
Preschool Handicapped Program	84.027	** 030407	9,321,923
Preschool Handicapped Program - Flowthrough.....	84.027	** 030407	2,699,890
Supplemental Support Services.....	84.027	** 030407	268,308
Success 4.....	84.027	** 3K75-07	240,614
IEP Training Grant.....	84.027	** N/A	4,800
Self-Assessment Data Collection.....	84.027	** 3K79-07MON	20,000
Para-Educator Training Project.....	84.027	** 3K76-07	18,900
Enhancing the Parent Educator Connection	84.027	** 37407	167,108
Diagnostic Evaluation Program.....	84.027	** 2K71-07	11,831
LEA Success 4	84.027	** 030407	<u>66,201</u>
			<u>12,836,657</u>
Special Education - Preschool Grants			
Special Education Preschool Grant	84.173	03619-07	<u>527,442</u>
Vocational Education - Basic Grants to States			
Perkins III	84.048	***	<u>637,251</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass- Through Grantor's Number	Federal Expenditures
Special Education - Grants for Infants and Families With Disabilities	84.181	C03-07	\$ 441,987
Early Childhood Educator Professional Development	84.349	N/A	59,591
Special Education - State Program Improvement Grants for Children With Disabilities	84.323	SGP/IEP	65,944
Reading First State Grants.....	84.357	Various	26,544
English Language Acquisition Grants.....	84.365 ****	N/A	92,832
Total Pass-Through Iowa Department of Education			14,908,481
Pass-Through Iowa Valley Community College Vocational Education - Basic Grants to States Perkins III	84.048 ***	N/A	18,000
Pass-Through University of Iowa Assistive Technology	84.224	1-36010-00	12,000
Special Education - Grants to States Middle School Technology Grant.....	84.027 **	1552218 00	12,000
Total Pass-Through University of Iowa.....			24,000
Pass-Through Waterloo Community School District Twenty-First Century Community Learning Centers Echoes Grant	84.287	5287a01/222	703,694
Title 1 Program for Neglected and Delinquent Children	84.013 *	N/A	12,587
Teacher Quality Enhancement Grants	84.336 *****	N/A	17,240
English Language Acquisition Grants.....	84.365 ****	N/A	8,527
Total Pass-Through Waterloo Community School District.....			742,048
Pass-Through Charles City Community School District Teacher Quality Enhancement Grants	84.336 *****	N/A	773
Pass-Through Wapsie Valley Community School District Teacher Quality Enhancement Grants	84.336 *****	N/A	268
Pass-Through Grant Wood AEA Education Technology State Grants.....	84.318	N/A	159,915
Pass-Through Mason City Community School District Teacher Quality Enhancement Grants	84.336 *****	N/A	2,708
Title I Program for Neglected and Delinquent Children	84.013 *	N/A	33,413
Total Pass-Through Mason City Community School District.....			36,121
Total U.S. Department of Education - Indirect			16,044,166
Total U.S. Department of Education			16,181,374

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass- Through Grantor's Number	Federal Expenditures
U.S. Department of Health and Human Services - Direct			
Medical Assistance Program	93.778	N/A	\$ 189,095
U.S. Department of Health and Human Services - Indirect			
Pass-Through Tama County			
Temporary Assistance for Needy Families	93.558	N/A	3,038
Pass-Through Marshall County			
Temporary Assistance for Needy Families	93.558	N/A	4,000
			7,038
Pass-Through North Iowa Community Action Organization			
Head Start			
Project Child Care	93.600	N/A	41,360
Pass-Through Pathways Community Behavioral			
Healthcare, Inc.			
Block Grants for Prevention and Treatment of			
Substance Abuse	93.959	N/A	63,377
Pass-Through Iowa Department of Public Health			
Block Grants for Prevention and Treatment of			
Substance Abuse	93.959	N/A	109,467
			172,844
Total U.S. Department of Health and Human			
Services - Indirect.....			221,242
Total U.S. Department of Health and Human			
Services.....			410,337
Corporation for National and Community Service - Direct			
Learn and Serve America - School and Community			
Based Programs	94.004	N/A	5,400
Total Federal Financial Assistance			\$ 16,668,064

* Total Expenditures for CFDA Number 84.013 were \$ 266,233.
 ** Total Expenditures for CFDA Number 84.027 were 12,848,657.
 *** Total Expenditures for CFDA Number 84.048 were 655,251.
 **** Total Expenditures for CFDA Number 84.365 were 101,359.
 ***** Total Expenditures for CFDA Number 84.336 were 20,989.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

(1) Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Area Education Agency 267 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

(2) Subrecipients

Area Education Agency 267 provided \$2,699,890 of federal awards to various school districts as part of the Preschool Handicapped Program.

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

Board of Directors
Area Education Agency 267
Cedar Falls, Iowa

We have audited the financial statements of Area Education Agency 267 as of and for the year ended June 30, 2004, and have issued our report thereon dated October 18, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Area Education Agency 267's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that are described below.

Comments involving statutory and other legal matters about Area Education Agency 267's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Area Education Agency 267. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

04-IV-CS-1 Official Depositories - A resolution naming official depositories has been adopted by the Agency. However, the Agency had deposited amounts of less than \$100,000 at a bank not approved as an official depository during the year ended June 30, 2004.

Auditor's Recommendation - The Agency should update its depository resolution to include all banks where the Agency deposits its funds.

Agency's Response - We have closed the account in question.

Auditor's Conclusion - Response accepted.

04-IV-CS-2 Budget - Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted for instruction, student support services, general administration, business administration, facilities construction and acquisition, noninstructional programs and debt service. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Auditor's Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Agency's Response - This was the first year of the combined Agency and it was difficult to determine the accrual basis expenditures during the year. We will be able to monitor this better in the future and will properly amend the budget as necessary.

Auditor's Conclusion - Response accepted.

04-IV-CS-3 Questionable Expenditures - We noted no expenditures which did not appear to meet the requirements of public purpose as defined in an Attorney General's Opinion dated April 25, 1979.

04-IV-CS-4 Travel Expenses - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.

04-IV-CS-5 Business Transactions - No business transactions between the Agency and Agency officials or employees were noted.

04-IV-CS-6 Bond Coverage - Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

04-IV-CS-7 Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

04-IV-CS-8 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa.

04-IV-CS-9 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Area Education Agency 267's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Area Education Agency 267's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe that reportable conditions 04-II-R-1 and 04-II-R-3 described in Part II are material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Area Education Agency 267 and other parties to whom Area Education Agency 267 may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
October 18, 2004

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance ---

Board of Directors
Area Education Agency 267
Cedar Falls, Iowa

Compliance

We have audited the compliance of Area Education Agency 267, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Area Education Agency 267's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Area Education Agency 267's management. Our responsibility is to express an opinion on Area Education Agency 267's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Area Education Agency 267's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Area Education Agency 267's compliance with those requirements.

In our opinion, Area Education Agency 267 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Area Education Agency 267 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Area Education Agency 267's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Area Education Agency 267's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe reportable condition 04-III-R-1 described in Part III is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Area Education Agency 267 and other parties to whom Area Education Agency 267 may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
October 18, 2004

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

Part I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? ☒ yes ☐ no

Reportable condition identified not considered to be material weaknesses? ☒ yes ☐ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

Material weakness identified? ☒ yes ☐ no

Reportable condition identified not considered to be material weaknesses? ☒ yes ☐ none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ yes ☐ no

Identification of major programs:

CFDA Numbers

84.027
84.173

Name of Federal Program or Cluster

Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$500,042

Auditee qualified as low-risk auditee?

☐ yes ☒ no

Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements

Instances of Noncompliance

There were no current year reported instances of noncompliance.

Reportable Conditions

The prior year reportable condition has not been resolved and is repeated below as Item 03-II-R-1.

04-II-R-1 Proper Tracking of Accounts Receivable

Finding - The list of receivables maintained by the Agency's accounts receivable clerk did not agree to the trial balance due to numerous errors and omissions from the list. In addition, the Agency does not maintain a list of receivables throughout the year.

Auditor's Recommendation - The Agency should develop a system to properly account for receivables and reconcile the amounts to the Agency's financial statements. This system should allow Agency personnel to account for receivables throughout the year and to follow up on past-due accounts in a timely manner.

Agency's Response - The Agency is researching software products that will allow it to track receivables throughout the year. The Agency is also currently in the process of implementing new procedures that will better allow it to track receivables.

Auditor's Conclusion - Response accepted.

04-II-R-2 Proper Documentation of Revenue Received

Finding - Agency personnel had a difficult time locating documentation for our use to verify that receipts from a variety of school districts was recorded into the proper revenue account. The documentation was later obtained from other departments, or duplicated based on other information to verify that the receipts were properly recorded.

Auditor's Recommendation - The Agency should develop a centralized filing system for the documentation supporting all receipts.

Agency's Response - The Agency is currently in the process of implementing new procedures that will provide better documentation of the revenue it receives.

Auditor's Conclusion - Response accepted.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

04-II-R-3 Proper Accounting for Accounts Payable

Finding - Agency personnel were not able to reconcile accounts payable lists to the accounting records. There were several errors, omissions and numerous payroll liabilities that the software erroneously credited to accounts payable instead of accrued payroll.

Auditor's Recommendation - The Agency should develop a system that requires the accounting staff to properly reconcile accounts payable lists to the general ledger on a timely basis.

Agency's Response - The Agency is currently in the process of implementing new procedures that will improve the accounts payable process.

Auditor's Conclusion - Response accepted.

04-II-R-4 Proper Documentation of Lease Expenditures

Finding - Agency personnel were not able to locate the lease for the Agency's Charles City location.

Auditor's Recommendation - The Agency should review their leases for all property locations and maintain a file with all current leases.

Agency's Response - The Agency will create a file with all current leases.

Auditor's Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance

04-III-C-1 Proper Documentation for Reporting to the Iowa Department of Education

Finding - The Agency is required to obtain weighted enrollments from each of the 61 school districts in its area. The superintendent of each district signs an affidavit stating that the count attached to the affidavit is complete and correct. The affidavit gives the date that the enrollment was last updated and printed. The Agency routinely updates these lists for errors and submits a final list to the Iowa Department of Education. For each one of the 14 school districts that we tested, the enrollment submitted to the Iowa Department of Education was printed and updated after the enrollment that was approved by the superintendents.

Auditor's Recommendation - The Agency should obtain the approval of the school districts for the final enrollment that is turned into the Department of Education.

Agency's Response - The Agency will keep the original list approved by the superintendents and will obtain approval for any significant changes in the weighted enrollment for their district.

Auditor's Conclusion - Response accepted.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

04-III-C-2 Proper Documentation of Weighted Enrollment Information

Finding - The Agency is required to report the weighted enrollment to the Iowa Department of Education separately by each school district in the Agency. We tested 14 of the enrollment forms maintained in the Agency's files and compared them to the list submitted to the Iowa Department of Education. Three of the fourteen school district enrollment forms that we tested did not agree with the weighted enrollment submitted.

Auditor's Recommendation - We recommend that the Agency ensure that its files contain the most updated version of all enrollment reports and that they agree with amounts submitted to the Iowa Department of Education.

Agency's Response - The Agency has submitted the proper amounts to the Iowa Department of Education but had not updated its supporting information at the time of the audit. This will be updated timely in the future.

Auditor's Conclusion - Response accepted.

04-III-C-3 Required Update of Individual Education Plan

Finding - The Agency is required to annually evaluate and update the Individual Education Plan (IEP) for each child that it provides special education services for. We tested 40 special education students and noted three students who's IEP had not been updated in the last 12 months.

Auditor's Recommendation - We recommend that the Agency develop procedures to ensure that it updates the IEP annually for each of its special education students.

Agency's Response - The Agency will institute measures to ensure that each special education student's IEP is updated annually.

Auditor's Conclusion - Response accepted.

04-III-C-4 Proper Exit from the Special Education Program

Finding - The Agency is required to document in each student's file when and why they exit the special education program. Of the 40 special education students that we tested, one student that exited the program did not have the proper documentation in his file.

Auditor's Recommendation - We recommend that the Agency develop procedures to ensure that it properly process all students who exit the special education program.

Agency's Response - The Agency will institute measures to ensure that the exit of each special education student is properly documented.

Auditor's Conclusion - Response accepted.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

Reportable Conditions

All programs displayed on the Schedule of Expenditures of Federal Awards.

04-III-R-1 Proper Accounting for Accounts Payable

Current Year Finding - The Agency's personnel were not able to reconcile lists of accounts payable to the accounting records. See audit finding 04-II-R-3 for additional information. The Agency's corrective action planned is included in the Agency's response.